
INVESTMENT SECTION

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity

For the Fiscal Year Ended September 30, 2006

Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2006. The report provides highlights on investments in general as well as specific information on the Retirement System's investment activity for the fiscal year. The custodian calculated rates of return based on the standards set forth by the Global Investment Performance Standards (GIPS®).

Consternation early in the year regarding a pickup in inflation caused the capital markets to stay range-bound for the first three quarters. After a summer sell-off, the markets began to sense that the Fed finally had a firm grip on inflation. The "soft landing" that would allow continued strong corporate profit growth with controlled inflation seemed to play out. After peaking in late June at 5.25%, the ten-year US Treasury rallied back to 4.6% by year end. This enabled the S & P 500 to move up 5.7% in the fourth fiscal quarter, which was more than half the total return for the entire year.

We expect the current profitability cycle to continue, but growth should slow down from the pace recently experienced. There continues to be high cash levels in corporations, and valuation multiples have been compressing at the same time that profit growth has risen. This should lead to continued dividend growth and share repurchase, and should allow for continued merger and acquisition activity by both strategic and financial buyers.

With GDP growth probably slowing from the 3% pace posted last year, we are continuing with our strategy of overweighting large capitalization stocks over mid and small caps. Again, we expect returns next year to be on par with historical patterns. After four years of a bull market, it would not be surprising to see the markets consolidate, or correct, at some point in the year. Volatility has continued to move lower, as profit margins have been steady through the cycle. Hopefully, this complacency does not indicate turbulence ahead. However, interest rates remain low, and the Federal Reserve in all likelihood will be cutting short term rates at some point in 2007. After having added to equities the past few years, we do not foresee any major asset allocation shifts on the horizon. We will continue to demand the best execution from all our financial counterparts, and will strive to produce results that strengthen the Retirement Systems of Alabama.

RSA Performance Summary

As of September 30, 2006, aggregate defined benefit assets under management totaled \$28.097 billion. During fiscal year 2006, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and Judicial Retirement Fund were 8.82%, 8.37%, and 9.12%, respectively. International equities were again the best performing asset class within the portfolio.

Equities

Fiscal 2006 proved to be another good year in the stock market. With much lamentation, the markets again climbed the proverbial wall of worry. The year began with high oil prices, the Fed continuing to hike short term rates, and the ongoing struggle in Iraq. However, strong corporate earnings growth, declining energy prices, and the Fed finally going on hold allowed the markets to move higher. Over half the move in the S & P 500 occurred in the final quarter of the fiscal year.

As we were long hoping, large capitalization stocks finally took over the reigns to lead the rally. The large differential in earnings growth between large and small capitalization companies narrowed considerably over the course of the year. We believe this is a trend that should continue for some time. Further supporting the sustainability of the market is the large cash reserves held at companies, which bodes well for continued stock repurchases and further dividend boosts. As we have seen, if the companies are not willing to take the steps to improve their balance sheets, private investors are willing to accommodate. Leveraged buyouts boomed this year, and will likely continue if companies continue to sit on their cash rather than redeploy it in a proper manner. Another reason for continued gains in equities is valuation support. The market is now trading in line with its

historical average P/E post World War II. The multiple compression phase we have witnessed the past few years may finally be abating, allowing stocks to grow commensurate with earnings growth.

As far as activity throughout the year, new money was added to international equities early in the fiscal year. We also continue to shift money to the active management funds from the index funds, especially in the mid and small cap areas. We believe that with the capitalization leadership change, additional performance can be added in the mid and small cap funds through active management.

In review, the RSA equity allocation began the year at roughly 57.5%, and closed out fiscal 2006 at 62% on average across the three funds. Domestic equities account for over 46.5% of the fund, and international equities are now over 15% of the total. After five years of lagging, the large capitalization indices finally beat the smaller caps. The S & P 500 index was up 10.79%, the S & P 400 Midcap index was up 6.56%, and the S & P Smallcap 600 index was up 7.16%. The MSCI EAFE index was up 19.16%, again outperforming the broad domestic equity indices.

For the year, the RSA domestic equity portfolios increased 10.27%, 10.25%, and 10.41% for the TRS, ERS, and JRF, respectively. International equity returns fared better, posting 19.35% for TRS and 19.26% for ERS. The combined total return for the overall equity portfolios were 12.41%, 12.25%, and 10.41% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 15.11%, 9.67%, and 9.24% for TRS, 15.04%, 9.64%, and 9.18% for ERS, and 12.76%, 7.78%, and 9.14% for JRF, respectively.

Fixed Income

At the beginning of fiscal year 2006, the federal funds rate was yielding 3.75%, following the 11th consecutive hike by the Federal Reserve. This tightening cycle began in June of 2004, bringing an end to the lowest interest rates seen in over 40 years. With the spread differential between the 2yr and the 10yr treasury around 15 basis points and expectations for additional rate hikes through the end of the year, we felt it was only a matter of time before the yield curve would invert. As expected, the Fed raised the short-term lending rate by 25bps at the November and December meetings. The yield curve, at this point, did invert, where it would remain for the first three months of the calendar year.

The beginning of the calendar year also brought about change in leadership at the Federal Reserve. Ben Bernanke was sworn in as Chairman and a member of the Board of Governors on February 1st. He replaced Chairman Alan Greenspan, who served in this capacity since August 1987. During this time, the economy was growing at a healthy pace, forcing the Fed to systematically lift short-term interest rates. Policymakers in the U.S. were not alone in their tightening stance. Central banks from around the globe were also being firm with monetary policy. Even the Bank of Japan ultimately decided to raise rates after keeping its benchmark rate at zero percent for the last five years.

As spring rolled in, we started to see a shift in mentality that led to a re-steepening of the yield curve. We believe that changes in inflation expectations were the driving force behind the move. The 2s/10s curve drifted as wide as 20bps, in stark contrast to the 17bp inversion experienced in February. Inflation numbers, at the time, were trending near or above the upper end of the Fed's comfort zone. Further evidence of this argument was the widening gap between the 10yr and inflation-protected securities (TIPS). The upward movement in rates continued throughout June with the 10yr peaking at 5.25%. At the end of the month, the Federal Reserve raised short-term rates by 25bps, in what would be its 17th and final move.

Since that time, yields across the curve have fallen approximately 60bps on the heels of a weaker economic environment. Policymakers opted not to raise rates at its September meeting, reinforcing its assessment of the August pause. This pause ended what had been two years of restrictive actions. The corporate market has continued to grind over this time period. Corporate spreads are at historically tight levels, while default levels have experienced all-time lows. High-yield securities outpaced investment-grade credits once again as investors continued to seek risk in a low volatility environment. The only hiccup during the year came in the summer months

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity (Continued)

For the Fiscal Year Ended September 30, 2006

due to an emerging market scare and a correction within commodities. We continue to favor large, quality names that are less suspect to LBO risk and will outperform in a down market.

Going forward, we feel Chairman Bernanke and the Fed will have their work cut out for them in producing “sustainable non-inflationary growth”. The current reading for the Fed’s preferred price gauge (core PCE) is 2.4%. Its stated comfort level for this measure is anywhere between 1 and 2%. According to officials, they believe as the economy gradually slows, that inflation will also delicately drift back to a comfortable level. While the economy has definitely decelerated, investors have become concerned with the effects of a tight labor market. However, the markets have priced in a 50% chance that the Fed will now ease by the end of March in response to slower growth. Despite this train of thought, Bernanke and other members have repeated their warning that the risk of rising inflation is greater than the risk of a slowing economy.

In fiscal year 2006, the RSA purchased approximately \$2.508 billion in additional securities for the fixed income portfolio. As of September 30, 2006, the RSA’s fixed income portfolio had a market value of \$10.21 billion, of which 9.74% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 4.00% for the TRS, 3.93% for the ERS and 7.45% for the JRF versus 3.67% for the Lehman Aggregate Index. The five-year annualized returns were 5.28% for the TRS, 5.02% for the ERS and 3.55% for the JRF, versus 4.81% for the Lehman Aggregate Index. The ten-year annualized returns were 6.48% for the TRS, 6.31% for the ERS and 5.81% for the JRF versus 6.38% for the Lehman Aggregate Index.

Sincerely,



Marc Green
Director of Investments

I. Board Objectives

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds in accordance with the Prudent Man Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

II. Asset Allocation

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,
2. The perception of the prospective risks and returns of eligible asset classes, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

A. Domestic Fixed Income

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 70% of the market value of the aggregate portfolio of each System.

B. International Fixed Income

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Policies and Procedures (Continued)

For the Fiscal Year Ended September 30, 2006

C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 15% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 10% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 5% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2006

		Annualized		
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	8.82%	10.26%	7.60%	7.77%
ERS	8.37%	9.80%	7.10%	7.58%
JRF	9.12%	10.12%	6.01%	7.41%
Total Domestic Equity				
TRS	10.27%	13.04%	8.30%	8.46%
ERS	10.25%	13.05%	8.32%	8.48%
JRF	10.41%	12.76%	7.78%	9.14%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	10.79%	12.30%	6.97%	8.59%
Dow Jones Industrial Average	13.13%	10.42%	8.06%	9.21%
S&P MidCap 400	6.56%	15.23%	13.09%	13.37%
S & P 600 Smallcap	7.16%	17.40%	15.06%	11.35%
Total International Equity				
TRS	19.35%	22.61%	14.73%	7.22%
ERS	19.26%	22.52%	14.68%	7.23%
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	19.16%	22.32%	14.26%	6.82%
Total Fixed Income and Alternatives				
TRS	3.72%	4.60%	4.69%	6.12%
ERS	3.45%	4.35%	4.38%	5.99%
JRF	7.11%	6.35%	3.40%	5.73%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	3.71%	3.48%	4.85%	6.45%
Lehman Bros. Aggregate	3.67%	3.38%	4.81%	6.42%

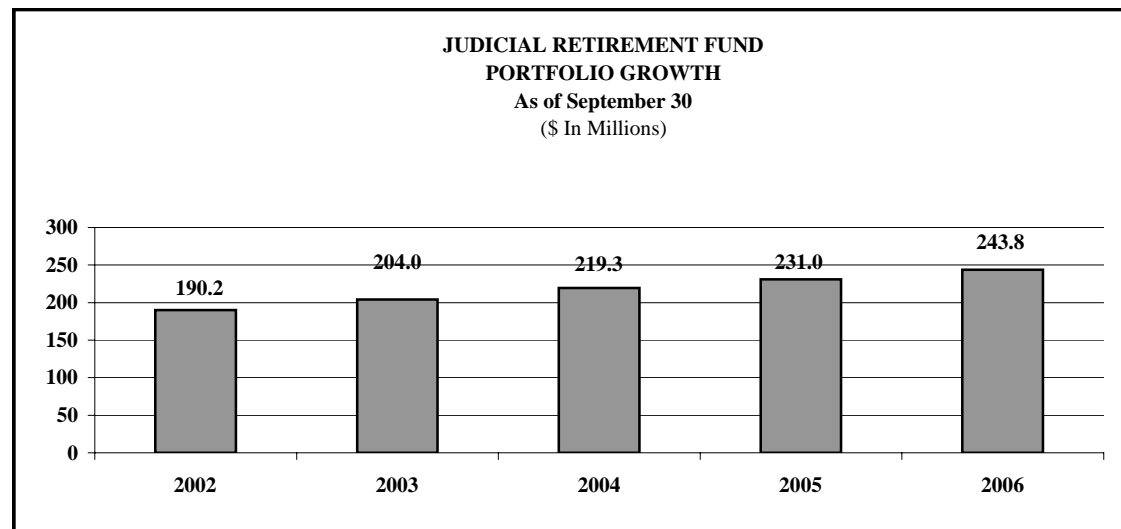
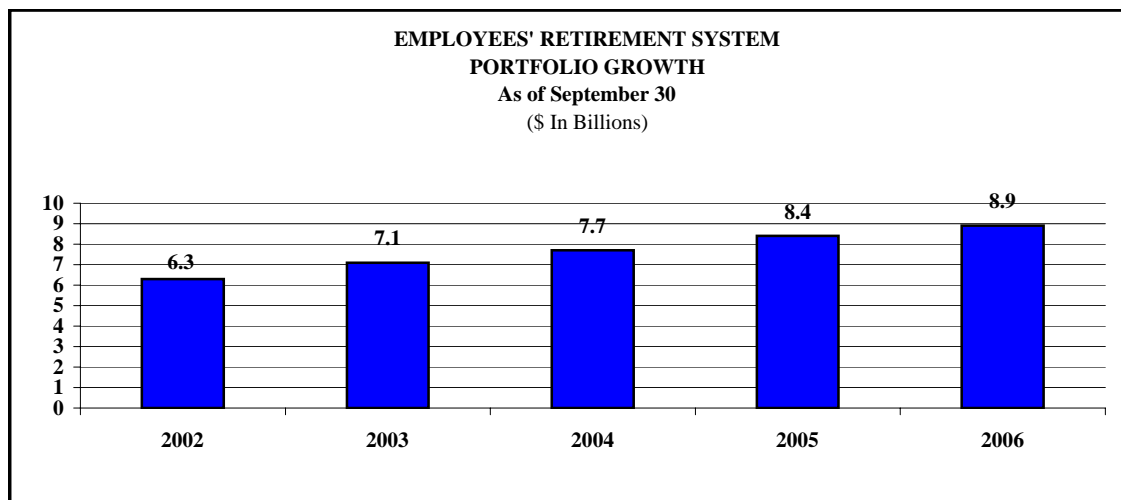
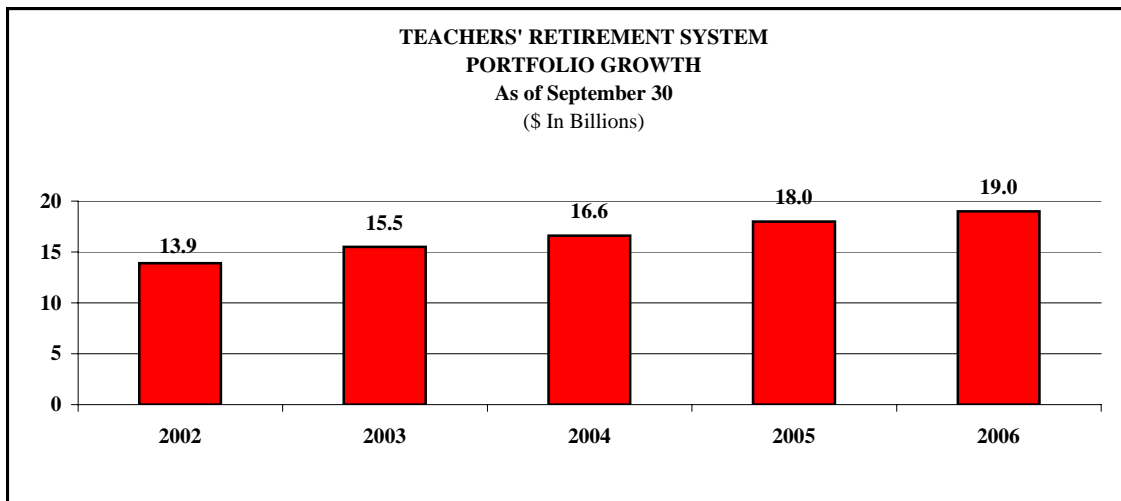
Investment return calculations were prepared using a time-weighted return based on the Global Investment Performance Standards (GIPS®).

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Portfolio Growth

Five-Year Comparison

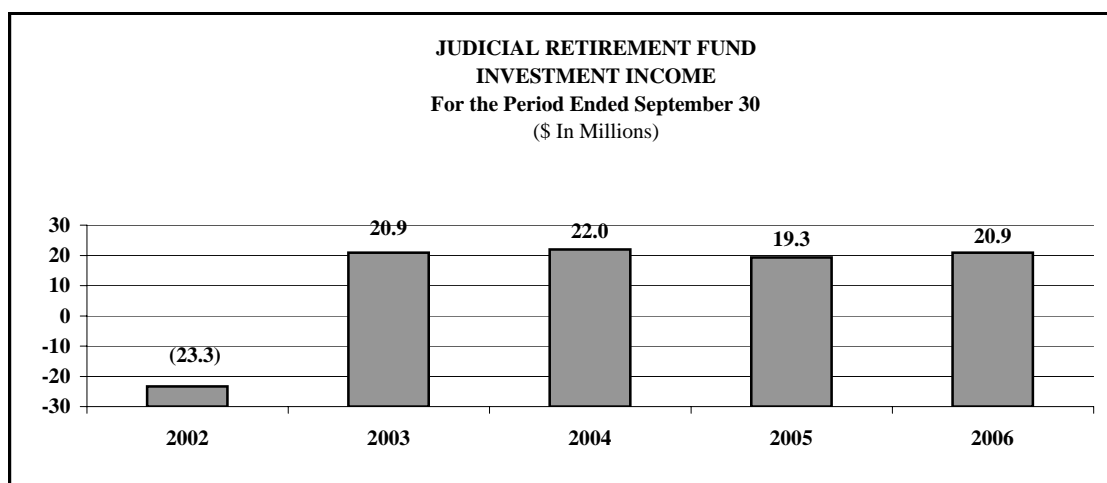
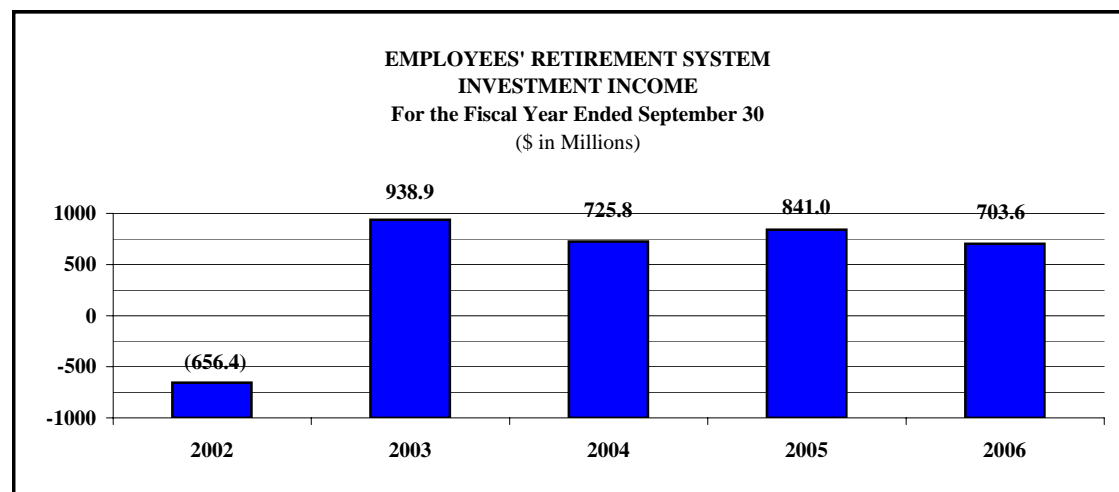
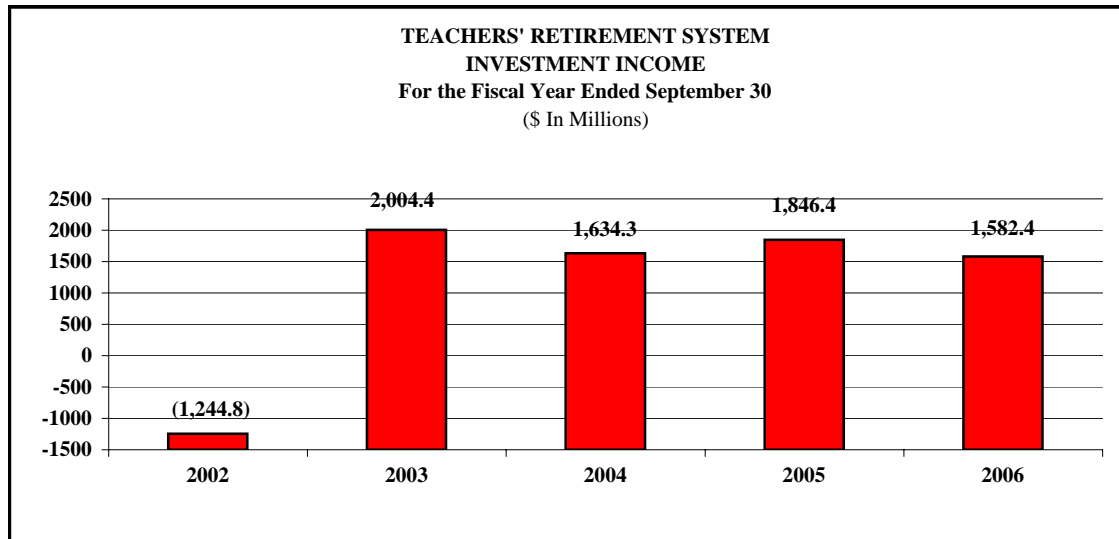


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Income

Five-Year Comparison

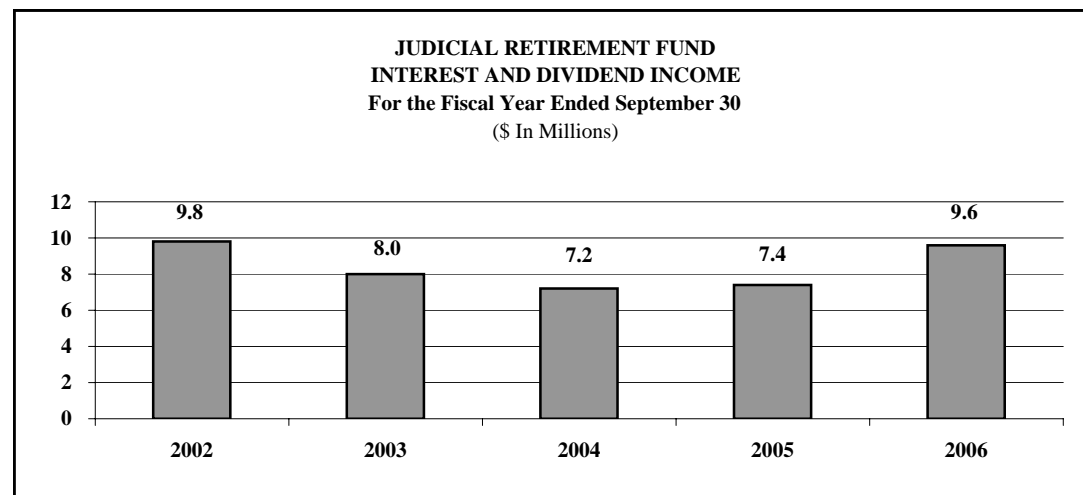
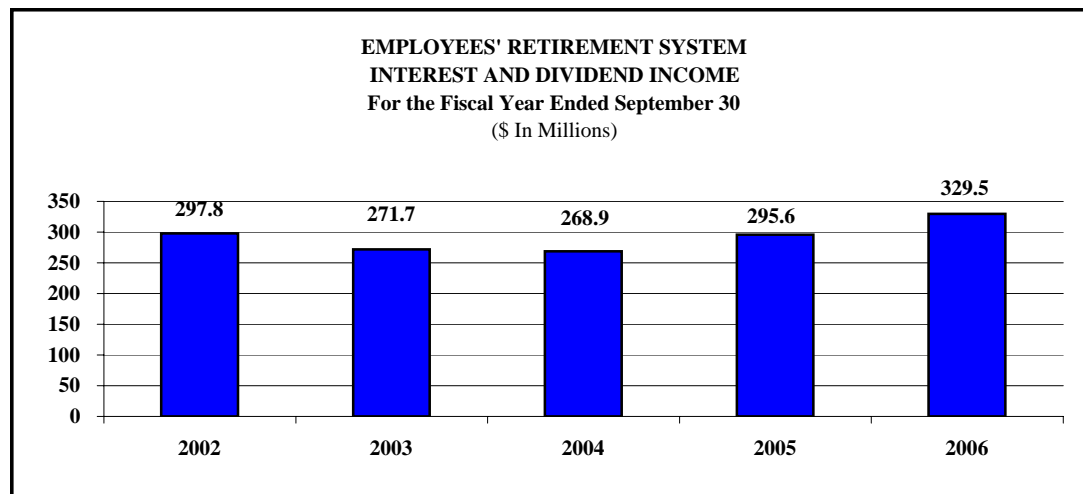
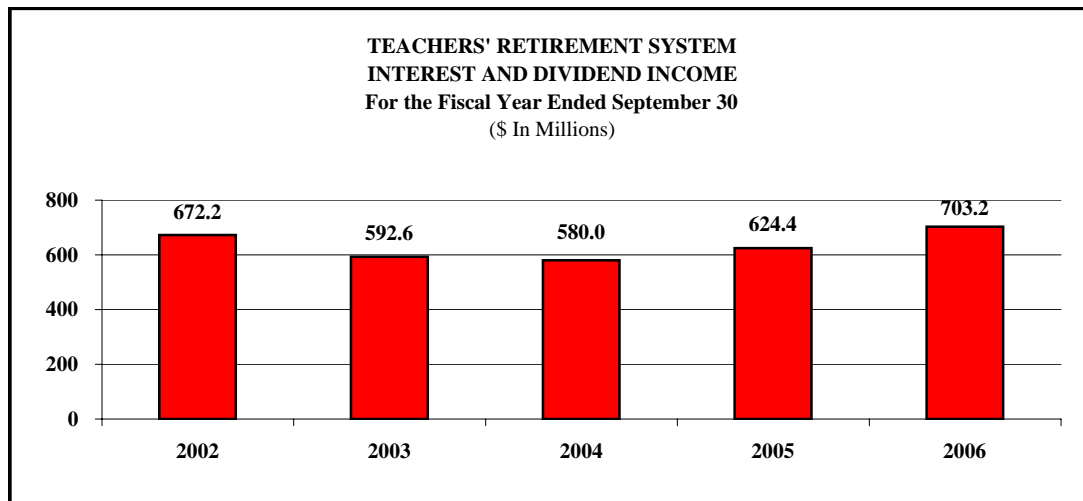


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Interest and Dividends

Five-Year Comparison

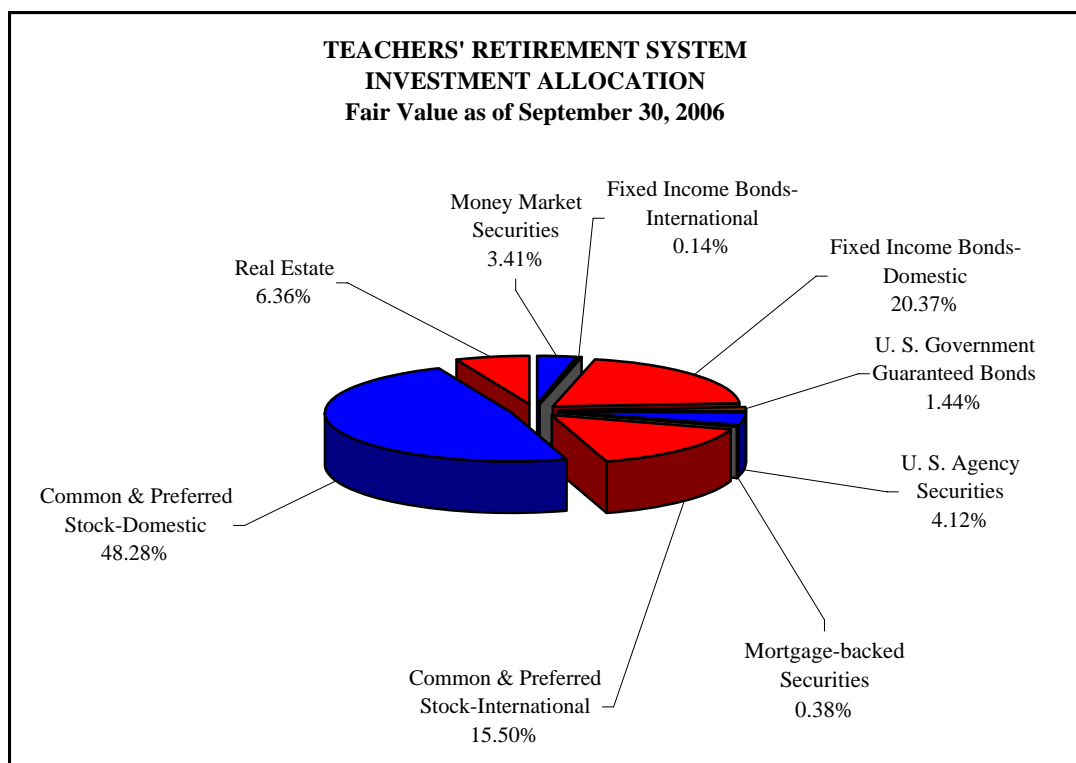


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



TEACHERS' RETIREMENT SYTEM INVESTMENT SUMMARY AT FAIR VALUE

As of September 30, 2006

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 646,143	3.41
U.S. Government Guaranteed	273,482	1.44
U.S. Agency Securities	780,503	4.12
Mortgage-backed Securities	72,707	0.38
Fixed Income Bonds		
Domestic	3,864,054	20.37
International	26,729	0.14
Common and Preferred Stocks		
Domestic	9,157,003	48.28
International	2,940,891	15.50
Real Estate	1,206,840	6.36
Total Investments	\$ 18,968,352	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Largest Stock and Bond Holdings

TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2006

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	345	Goldman Sachs - S & P Equity Private Placement	\$ 353,254
2)	3,474	Exxon Mobil	233,094
3)	6,033	General Electric	212,966
4)	232	Raycom Media	188,705
5)	3,039	Citigroup	150,942
6)	5,457	Microsoft	149,139
7)	2,748	Bank of America	147,222
8)	4,586	Pfizer	130,068
9)	1,837	Johnson & Johnson	119,298
10)	1,644	American International Group	108,906

TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2006

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 1,333,215	Raycom Media Incorporated 6.75% due 12/15/16	\$ 1,085,395
2)	925,399	Community News 6.75% due 1/31/17	581,378
3)	196,000	Alabama River Group 8.625% due 10/8/13	196,751
4)	171,244	U.S. Treasury 4.25% due 8/15/15	166,615
5)	90,000	CSX Corporation 8.3% due 5/1/32	94,829
6)	90,750	Mediaone Group Incorporated 8.15% due 2/1/32	93,992
7)	71,590	Nationwide Financial Services 8.0% due 3/1/27	74,671
8)	41,543	U.S Treasury 4.125% due 5/15/15	40,102
9)	35,000	Bowater (Canadian PAC Forest) 10.625% due 6/15/10	38,339
10)	37,800	Federal Home Loan Bank 5% due 12/21/15	37,604

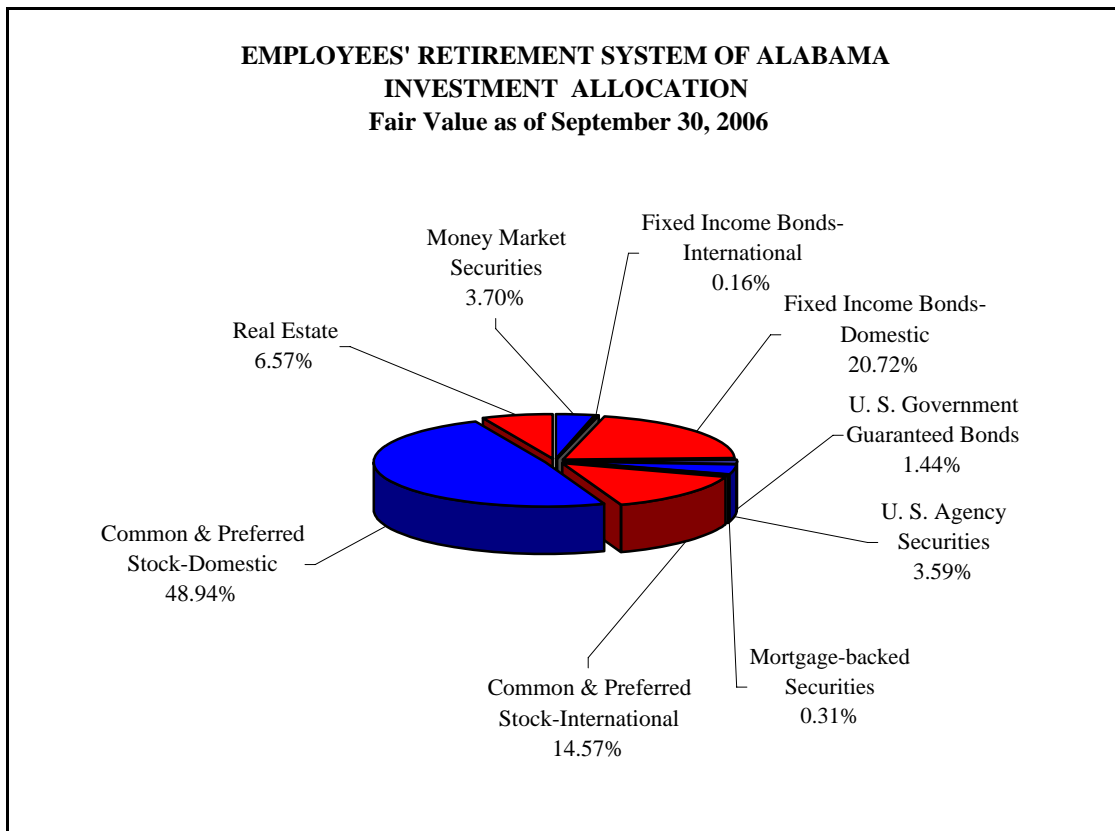
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Investment Allocation and Summary



EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT SUMMARY AT FAIR VALUE

As of September 30, 2006

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 328,769	3.70
U.S. Government Guaranteed	128,343	1.44
U.S. Agency Securities	318,379	3.59
Mortgage-backed Securities	27,922	0.31
Fixed Income Bonds		
Domestic	1,839,504	20.72
International	14,343	0.16
Common and Preferred Stocks		
Domestic	4,345,437	48.94
International	1,293,472	14.57
Real Estate	583,690	6.57
Total Investments	\$ 8,879,859	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Largest Stock and Bond Holdings

EMPLOYEES' RETIREMENT SYSTEM

LARGEST STOCK HOLDINGS

September 30, 2006

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	232	Raycom Media (8% noncum PFD)	\$ 188,705
2)	155	Goldman Sachs - S & P Equity Private Placement	158,691
3)	1,562	Exxon Mobile	104,803
4)	2,742	General Electric	96,797
5)	1,382	Citigroup	68,650
6)	1,260	Bank of America	67,522
7)	2,463	Microsoft	67,312
8)	97	Community News Tranche D Preferred (8% Non Cum)	60,814
9)	2,068	Pfizer	58,659
10)	836	Johnson & Johnson	54,305

EMPLOYEES' RETIREMENT SYSTEM

LARGEST BOND HOLDINGS

September 30, 2006

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 663,738	Raycom Media Incorporated 6.75% due 12/15/16	\$ 540,361
2)	466,447	Community News 6.75% due 1/31/17	293,044
3)	84,000	Alabama River Group 8.625% due 10/8/13	84,322
4)	83,192	U.S. Treasury 4.25% due 6/15/15	80,943
5)	54,260	Mediaone Group Incorporated 8.15% due 2/1/32	56,199
6)	50,000	CSX Corporation 8.3% due 5/1/32	52,683
7)	23,864	Nationwide Financial Services 8.0% due 3/1/27	24,891
8)	15,000	IBM Corp 8.375% due 11/1/19	18,851
9)	18,648	U.S. Treasury 4.125% due 5/15/15	18,001
10)	17,020	Federal Home Loan Bank 5.0% due 12/21/15	16,932

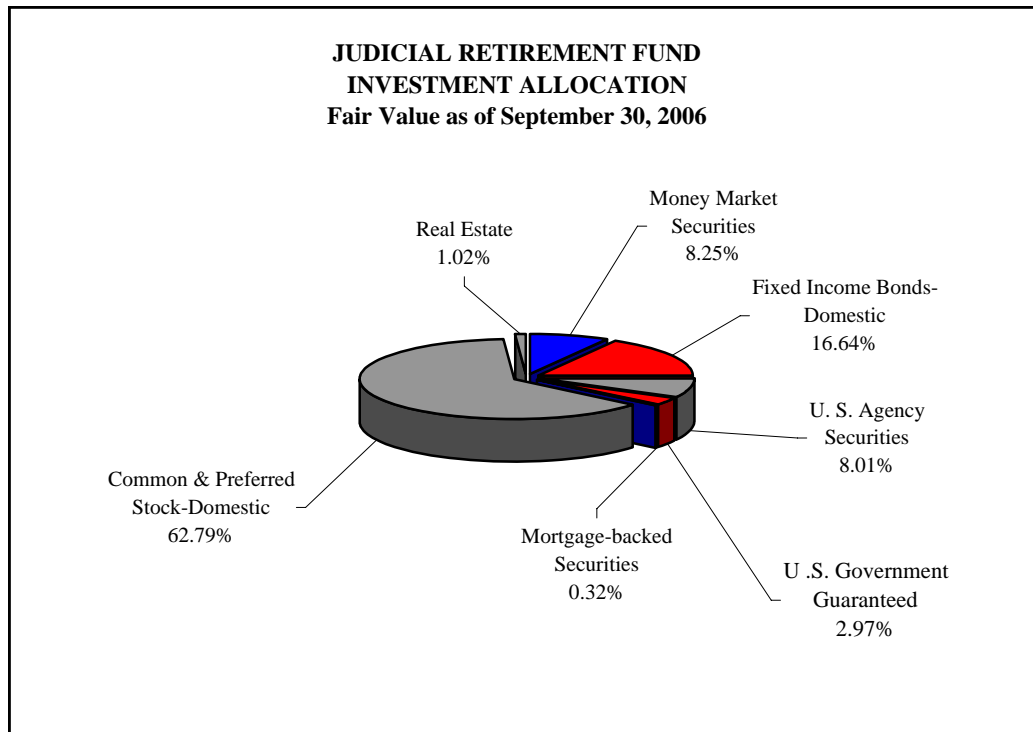
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2006

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 20,104	8.25
U.S. Government Guaranteed	7,252	2.97
U.S. Agency Securities	19,514	8.01
Mortgage-backed Securities	778	0.32
Fixed Income Bonds, Domestic	40,564	16.64
Common and Preferred Stocks, Domestic	153,064	62.79
Real Estate	2,494	1.02
Total Investments	\$ 243,770	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Largest Stock and Bond Holdings

JUDICIAL RETIREMENT FUND LARGEST STOCK HOLDINGS

September 30, 2006

(Amounts in Thousands)

	Shares	Stock	Fair Value
1)	68	Exxon Mobil Corporation	\$ 4,582
2)	119	General Electric Corporation	4,185
3)	57	Citigroup Incorporated	2,820
4)	52	Bank of America Corporation	2,785
5)	99	Microsoft Corp	2,711
6)	84	Pfizer Incorporated	2,375
7)	36	Proctor & Gamble	2,260
8)	34	Johnson & Johnson	2,182
9)	30	American International Group	1,978
10)	40	JP Morgan Chase & Co	1,872

JUDICIAL RETIREMENT FUND LARGEST BOND HOLDINGS

September 30, 2006

(\$ In Thousands)

	Par	Bonds	Fair Value
1)	\$ 5,318	Community News due 1/31/17	\$ 3,884
2)	2,864	Nationwide Financial Services due 3/1/27	3,071
3)	3,032	Xcel Energy Incorporated due 12/29/05	3,000
4)	2,000	PPL Energy due 12/21/013	2,279
5)	2,020	Kellogg Company due 11/29/05	2,004
6)	2,010	General Mills Incorporated due 11/16/05	1,999
7)	1,634	General Electric Capital Corporation due 9/15/14	1,641
8)	1,500	GTE Corporation due 2/1/27	1,597
9)	5,000	UAL Pass-through Certificates Ser 1992B due 10/26/15	1,423
10)	1,275	Mediaone Group due 2/1/32	1,356

A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Broker Commissions Paid

For the Fiscal Year Ended September 30, 2006

	Stock			Fixed	Total
	Commissions	# of	Commissions	Securities	Commissions
	Per Share	Shares	(000's)	(000's)	(000's)
AG Edwards	\$ 0.0501	1,496	\$ 75	\$ -	\$ 75
Banc of America	-	-	-	425	425
Bear Stearns & Co.	0.0431	14,261	615	202	817
Bernstein	0.0500	17,478	874	-	874
Centennial	0.0492	650	32	-	32
CIBC	0.0500	2,821	141	-	141
Citigroup	0.0399	17,841	712	556	1,268
Citigroup-Ben Walker	0.0499	1,604	80	-	80
Citigroup-Montgomery	-	-	-	22	22
Concord-Rayl	0.0400	25	1	-	1
Credit Suisse First Boston Corp.	0.0293	8,701	255	532	787
Deutsche Bank	0.0380	1,973	75	56	131
Empirical Research	0.0502	2,070	104	-	104
First Discount	0.0482	249	12	-	12
Gardner Rich	0.0494	607	30	-	30
Goldman Sachs & Co.	0.0283	5,060	143	244	387
Howard Weil & Co.	0.0502	1,894	95	-	95
Issuer Designated	-	-	-	264	264
ISI	0.0500	5,403	270	-	270
Janney Montgomery Scott	0.0486	350	17	-	17
J. P. Morgan Chase	0.0249	10,366	258	310	568
Keefe Bruyette	0.0501	3,031	152	-	152
Lazard Cap-Ricahrd	0.0533	150	8	-	8
Lehman Brothers, Inc.	0.0301	11,098	334	197	531
Lehman Brothers, Inc. - Soft	0.0501	1,876	94	-	94
Matrix	0.0500	960	48	-	48
McDonald & Company	0.0505	475	24	71	95
MER Soft	0.0499	922	46	-	46
Merrill Lynch, Pierce, Fenner & Smith	0.0262	22,853	599	216	815
Morgan Keegan	0.0497	1,307	65	9	74
Morgan Stanley Dean Witter	0.0426	9,868	420	245	665
Morgan Stanley Dean Witter-Int'l	0.0500	4,522	226	-	226
Morgan Stanley Dean Witter-Soft	0.0498	1,605	80	-	80
Morgan Stanley-Campbell	0.0502	1,334	67	-	67
NBC-Falkenburg	0.0502	1,276	64	-	64
NBC Securities, Inc.	-	-	-	8	8
Ned Davis	0.0502	1,354	68	-	68
Oppenheimer	0.0500	2,598	130	-	130
Princeton Sec-Sine	0.0514	350	18	-	18
Raymond James	0.0502	1,314	66	47	113
Register/Corts-Register	0.0520	250	13	-	13
Sandler O'Neil	0.0499	4,926	246	-	246
Securities Corp-Jones	0.0492	549	27	-	27
Simmons	0.0500	1,219	61	-	61
Southwest	0.0490	306	15	-	15
Sterne, Agee-Childers	0.0500	1,059	53	-	53
Sterne, Agee-Hill & Stevenson	0.0495	647	32	-	32
Sterne, Agee-Mobile	-	-	-	9	9
Sterne, Agee-Montgomery	-	-	-	6	6
Sun Trust Capital Markets	-	-	-	312	312
Susquehanna	0.0242	1,485	36	-	36
UBS Warburg	0.0501	1,278	64	355	419
UBS Warburg-Allison	0.0501	499	25	-	25
UBS Warburg-Young	0.0496	524	26	-	26
Wachovia-Collins	0.0505	475	24	-	24
Wachovia-Harris	0.0498	1,324	66	-	66
Wachovia-Montgomery	-	-	-	9	9
Totals		174,283	\$ 6,986	\$ 4,095	\$ 11,081

Average Commission Per Share of Stock = **\$ 0.0401**